

TAXJUSTICE.UK

TAXTAKES

Perspectives on building a better tax system to benefit everyone in the UK



EXECUTIVE SUMMARY
Edited by Will Snell
October 2017

About this publication

Tax Takes sets out some initial ideas about ways in which the UK tax system could be reformed to make it work better for the whole of the population, by making it both more progressive and more effective.

The full version of this pamphlet is made up of a series of short opinion pieces, each of which represents the opinions of its author, and none of which should be interpreted as an official statement of policy on behalf of Tax Justice UK. This executive summary contains heavily edited versions of the opinion pieces that appear in the full version of this report, which can be read at www.taxjustice.uk/tax-takes.

In 2018, we plan to publish detailed information and analysis on all UK taxes, as well as an annual research report looking at the design and impacts of the UK tax system as a whole.

About Tax Justice UK

Tax Justice UK is a campaigning and advocacy organisation that works to promote the role of tax, to advocate for a more progressive tax system, and to campaign against tax avoidance.

We are not-for-profit and politically non-aligned. We aim to engage with a broad spectrum of people and organisations from across the UK, including Scotland, Wales and Northern Ireland.

We work with a range of partners in pursuit of our objectives, including charities and other not-for-profit organisations, church groups, think tanks, trade unions, parliamentarians and business associations.

www.taxjustice.uk
mail@taxjustice.uk
020 3637 9137

Tax Justice UK Limited, Company Limited by Guarantee in England & Wales (no. 10761736)
Registered Address: Kemp House, 152-160 City Road, London EC1V 2NX

Executive Summary

Making the tax system better **understood**

Taxation builds a civilised society, healthy economy, secure country and decent public services.

Championing the role of tax in building a civilised and fair society

Will Snell

www.taxjustice.uk/tax-takes-1

The UK does not raise as much tax as it could, or should, to support strong public services and to reduce inequality. This is a political choice, driven by a dominant ideology that countries need to 'compete' on tax and regulation to attract global investment. This narrative is supported by most of the UK media, even though research suggests that public opinion is not aligned with this viewpoint. Many people in the UK understand why taxes are needed, and are happy to pay them. These views should be reflected and promoted by an organisation that will champion the role of tax in building a civilised and fair society. This is one of the key objectives of Tax Justice UK.

Making the tax system more **progressive**

The costs of contributing to tax revenues should be shared fairly, taking into account ability to pay.

Stopping 'competition' for corporate investment through tax cuts and giveaways

Sol Picciotto

www.taxjustice.uk/tax-takes-2

All companies should pay the same amount of tax on their profits, whether they are large or small, domestic or global. But governments, including in the UK, offer multinational companies tax cuts, unnecessary reliefs and subsidies, and opportunities to avoid tax in pursuit of a 'competitive' tax strategy. The UK government publicly supports a more transparent global tax system, while simultaneously blocking progress on key multilateral reforms such as public country-by-country reporting and the wider OECD-led BEPS process in favour of unilateral policies such as the diverted profits tax. The UK is deliberately foregoing tax revenue by introducing harmful tax practices such as the patent box, and by striking 'sweetheart deals' with multinational companies. It is time for the UK to play a more constructive role in supporting global transparency policies in pursuit of a fairer tax system that is less open to abuse.

How should we tax the new economy?

Jolyon Maugham

www.taxjustice.uk/tax-takes-3

As technology changes the shape of our economy, leading to growing mobility and concentration of wealth, bold reforms are needed to ensure that organisations and individuals are taxed fairly and effectively. For multinational companies, multilateral initiatives such as the EU's planned common consolidated corporate tax base hold promise, but if the UK does not engage with this post-Brexit, it should consider alternatives such as a foreign sales levy. For

individuals, the UK should cut taxes on income and increase taxes on wealth. This could be done by increasing tax rates on unearned income, reforming inheritance tax, and considering an annual wealth tax. We must be radical.

An income tax system supporting social spending to reduce gender inequality

Sue Himmelweit

www.taxjustice.uk/tax-takes-4

Independent taxation of married couples has improved gender equality in the UK since it was introduced in the 1990s, by taxing income for men and women more fairly and removing the disincentive for women to work. But recent policy changes, such as transferable tax allowances and the withdrawal of child benefit from higher earners, have reversed some of these gains. The solution to these dilemmas is to have a social security system and social services that rely less on means-testing and more on a progressive tax system that raises more revenue to pay for them. Bringing more people into income tax, initially at very low rates, with higher rates at the top end than we have now, would not only generate much-needed revenue, but might also increase understanding among taxpayers of the importance of universal benefits and social services.

Making the tax system more effective

All taxpayers, including companies and individuals alike, should pay all of the tax that they owe.

Social justice, tax justice and transparency

Krishen Mehta

www.taxjustice.uk/tax-takes-5

Tax justice is one of the pathways to social justice. We want to build a just society that serves, protects, and promotes participation of the most vulnerable. In the context of tax and financial transparency, this has several implications. Multinational companies should pay taxes in countries where their economic activities take place. Tax havens should be regulated to reduce tax avoidance. Country-by-country reporting should be introduced to increase the transparency of multinational companies. Automatic information exchange should be universalised, to prevent tax abuse and evasion. Beneficial ownership of companies, trusts, and foundations should be made public. A World Tax Authority should arbitrate tax disputes between nations. And predicate offences should be harmonised between jurisdictions. These measures will help us to move from having profit as the primary motivation for our companies to making society the primary beneficiary of a company's success and wellbeing.

Resourcing and refocusing HMRC

Cathy Cross

www.taxjustice.uk/tax-takes-6

Her Majesty's Revenue and Customs (HMRC) has undergone a drastic reduction in staffing levels in the last decade, with a 40% budget cut between 2000 and 2016. Many more staff will be lost and offices closed in the coming years. This is supposedly being done to save money, but cutting HMRC resources actually costs money, by making it easier to avoid and evade tax. We believe that the tax gap, which is made up of avoided, evaded and uncollected tax, stands at

closer to £119bn per year than the £36bn figure quoted by the government. It is impossible to collect these missing billions without properly resourcing HMRC and changing the ideology at the heart of government and in the senior levels of HMRC.

Requiring companies to calculate and submit figures on deliberately created tax risk

David Quentin

www.taxjustice.uk/tax-takes-7

Tax risk – the risk of owing more tax than you say you owe when you file your tax return – is an inevitable consequence of doing business. But this is not just ‘tax planning’; many taxpayers deliberately create tax risk with the intention of making tax savings, and then take steps to mitigate this ‘deliberately created’ tax risk in order to ensure that they have the best chance of obtaining the saving. A corporate tax function should be able to identify deliberate tax planning which introduces tax risk factors, and put a reasonably precise figure on the amount of tax saved by such planning. Corporation tax law should therefore require companies to perform that computation in relation to all deliberately created tax risk, and include the resulting figure in their tax returns.

The Tax Gap and what to do about it

Richard Murphy

www.taxjustice.uk/tax-takes-8

The tax gap is made up of two parts. The first is the difference between the amount of tax that should be paid and the sum actually paid (evasion, avoidance, and refusal to pay what is owed). The second is the amount of tax not paid because of either official policy or HMRC failure (low tax rates, or weak enforcement, for example). There is disagreement about the scale of both parts, but the sums involved are huge. Government policy is to address the tax gap by cutting HMRC’s resources; a better approach would be to create a new Office for Tax Responsibility to audit the tax gap and tax reliefs, to resource HMRC to close the tax gap (including through properly funded local offices), and to create a new Ministry of Tax, with a cabinet minister separately responsible for the delivery of tax policy, to transform the way that tax is seen by the government, the Treasury, spending departments and most especially by the people of this country.

Abolishing non-domiciled status

Prem Sikka

www.taxjustice.uk/tax-takes-9

A favourable taxation regime is available to non-domiciled individuals living in the UK, but who have a permanent home somewhere else. ‘Non-dom’ status is claimed by wealthy individuals, often advised by aggressive accountants and lawyers. The government claims that ‘non-doms’ bring investment into the UK, but has failed to provide any details or to show any economic benefits. This policy is a relic of a bygone age; it is unfair, enables tax avoidance, and should be abolished. The principle should be that if someone has lived in the UK for a ‘reasonable period’, they should be subjected to the same tax rules as anyone else.